

# NORTH LILY MINING COMPANY

1800 Glenarm Place - Suite 210, Denver, Colorado 80202  
Phone: 303-294-0427 Fax: 303-293-2235

m/023/007

**FAX transmittal**

DATE: 28 DEC 2000

TO: MARY ANN WRIGHT 801 359 3946

FAX: cc Doug Jensen 359 3940

cc Beth Wondimu 801 538 6016

cc Walt Shubert 435 843 8894

FROM: Gene Webb/Stephen Flechner

cc JBR/Bob Bayer 801 942 1852

RE COMPLETION OF RECLAMATION / closure of Silver City

Hard copy to follow Yes ☐ No ☐

No of pages 11

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0068

**NORTH LILY MINING COMPANY**

December 28, 2000

Suite 210

1800 Glenarm Place

Denver, CO 80202

Tel: 303.294.0427

Fax: 303.295.2255

Ms. Mary Ann Wright  
Associate Director of Mining  
Utah Division of Oil, Gas and Mining  
P.O. Box 145801  
Salt Lake City, Utah 84114

Via Facsimile  
(801) 359-3946

Re: Agreement to Extend December 31, 2000 Deadline for all Field Reclamation Activities at Silver City Facility

Dear Ms. Wright:

We understand that the Utah Division of Oil, Gas and Mining (DOGM) agrees to extending the time for performance of our field reclamation activities at our Silver City facility. As reflected in the attached Reclamation and Closure Plan Schedule, we have completed most of the work, and in doing so we have been working in close coordination with both DOGM and the Utah Department of Environmental Quality, Division of Water Quality (DWQ). Meetings among company representatives, DOGM and DWQ to review project progress and decisions have been held monthly (and more recently, twice monthly) beginning in May of this year.

The project is not yet 100% complete due to a combination of factors, including time required to ascertain and tailor the most effective technologies and applications to the site specific conditions, and the need to do it on a very limited available budget.

Nevertheless, with valuable guidance and assistance from DOGM and DWQ, significant progress has been accomplished at the site in terms of both the closure and reclamation targets. Completed tasks include the following: the heap leach pad has been regraded, mulched, ripped and seeded; the leach pad draindown rate has significantly decreased and continues to do so; enhanced evaporation capacity is in place; the draft final design for post-closure fluid management has been submitted to DWQ and conditionally approved; containerized waste and recyclable materials have been inventoried and scheduled for appropriate handling; and, delivery of sodium cyanide and caustic soda to Kennecott Barney's Canyon has been completed.

Only the installation of the post closure leach field, and removal of buildings, fixtures and ponds, and final reclamation of these facilities remains to be completed by mid 2001. Reasons for, and status of, continued interim use of remaining facilities are as follows:

- the pregnant and overflow solution ponds for solution storage and for enhanced evaporation system operation since closure of either of these ponds could jeopardize North Lily's ability to manage leach pad draindown volumes throughout the winter and into the spring;
- the barren solution pond for possible future use as a repository for construction/demolition debris, conditional upon the approval by the Division of Solid and Hazardous Waste;
- the office trailer which will be needed as a site office (record keeping, weather protection for site workers, telecommunications) for personnel on site;
- the mill building for storage of saleable equipment and material and to house the electrical distribution panel;
- the oil storage shed and adjacent storage locker to be used to shelter equipment and/or the electrical distribution panel when and if it is relocated from the mill building to facilitate demolition of the mill building;
- steel fuel tanks until they can be sold, and
- the caustic soda tank until the frozen solution in the tank bottom is thawed and the remainder of the caustic soda solution can be delivered to Kennecott Barney's Canyon.

The above tasks, or some of them, might already have been completed if we had unlimited funds, especially earlier this year. Unfortunately, the company has not had cash flow from operations, nor adequate funding for several years. Nevertheless, we have expended some \$190,000 on the project in 2000. This has been accomplished by borrowing against and/or selling portions of our Utah lands. Attached are a current Loan Commitment and transmittal letter for a \$500,000 financing expected to close next week on our 2330 acres of fee lands near Elberta, Utah.


Meanwhile, project progress has also required necessary time and certain trial and error for technical analysis to yield cost-effective/environmentally sound solutions to matters such as maximizing enhanced evaporation borrowed/adopted from Barrick's experience, utilization of top soil available on the site or compost from off site to enhance seeding of leach pad, and ultimate methodology for post-closure fluid management system. The latter started with an anoxic bioreactor to treat draindown fluids pursuant to the project's approved reclamation plan. That approach has been superseded by the leachfield concept, the location and design of which is still evolving, as reflected in the attached letter from JBR Environmental Consultants, Inc. to DWQ of December 22, 2000.

Ms. Mary Ann Wright  
December 28, 2000

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In light of all the above and related circumstances, we ask for your written confirmation of extension of our December 31, 2000 deadline under the stipulation and Consent Order of 26 July 2000 for completion of remaining field reclamation activities. We are confident that ongoing diligence and cooperation by our representatives, DOGM and DWQ, will yield timely completion of environmentally sound reclamation and closure.

Sincerely,



S. E. Flochner,  
President



W. Gene Webb,  
Executive Vice President

Attachment

cc: Dennis Frederick, DWQ  
Fred Pehrson, DWQ  
Beth Wondimu, DWQ  
Wayne Hedburg, Division of Oil Gas and Mining  
Robert J. Bayer, JBR Environmental Consultants, Inc.  
Mike Keller, VanCott Bagley

Exhibit A - Stipulation and Consent Order  
North Lily Mining Company - M/023/007  
Please Note: Revisions to schedule are ***bolded and italicized***.

Reclamation and Closure Plan Schedule NORTH LILY MINING COMPANY Silver City, Utah Heap Leach Facility  (Revised 11/14/00)			
	Component	Start Date	Anticipated Completion Date
1.	Restore Pad Perimeter Solution Collection System	May 8	May 9 (completed)
Assessment Review & Schedule Readjustment		May 16	Completed
2.	Design, Build & Start-up Enhanced Evaporation Systems	April 12	Complete
	2.1 System Design Schematic	April 12	Complete - 4/28
	2.2 Solution Channel Liner Repairs	July 31	Complete
	2.3 Reinstall ADS pipe underdrain in pad solution channel	Aug 15	Complete
	2.4 Site Clean-up	May 14	Complete
	2.5 Flow meter and weir or flume	May 12	Complete
	2.6 Install new pump	June 15	Complete
	2.7 Install and Start-up Pad Margin Evaporation System	May 12	Abandoned
	2.8 Relocate Evap. away from margin	May 22	Complete
	2.9 Install Overflow Pond Evap. if needed	July 10	Complete
	2.10 Repair Pregnant Pond Liner	July 5	Complete
	2.11 Reestablish Pregnant Pond Leak Detection System	July 21	Complete
	2.12 Construct, Install In-pond Preg-pond Evaporation System	July 17	Complete
	2.13 Estimate Post-Closure Draindown Rate	August 14	(See section 3.2.. below)
Assessment Review & Schedule Readjustment		June 13	Completed
3.	Design Post-closure Fluid Management System		
	3.1 Conceptual Design	April 15	August 25
	3.2 Final Design	August 10	November 15

BEING RE-FINALIZED

4.	Characterize, Identify, and Quantify Stockpile Topsoil & Topsoil Substitute, Finalize Seed Mix	July 17	Complete
4.1	Nutrient characterization of stockpiled topsoil and estimate stockpile volume	July 17	Topsoil application abandoned due to knapweed infestation
4.2	Determine topsoil thickness requirements	July 17	
4.3	Identify source of topsoil substitute and perform nutrient characterization	July 17	
4.4	Finalize seed mix	July 17	Complete
Assessment Review & Schedule Readjustment		July 13	Complete
5.	Assess Adequacy of Natural Revegetation in Former Land Application Area		Complete
Assessment Review & Schedule Readjustment Date		August 15	Complete
Assessment Review & Schedule Readjustment Date		August 29	Complete
6.	Regrade Heap Leach Pad	Oct. 30	November 30 <i>Complete</i>
Assessment Review & Schedule Readjustment Date		Sept. 12	Complete
Assessment Review & Schedule Readjustment Date		Sept. 26	Complete
Assessment Review & Schedule Readjustment Date		Oct. 10	Complete
7.	Inventory and Dispose of Salvageable, Recyclable, and Unusable Materials		
7.1	Inventory	July 10	Complete
7.2	Disposal	July 30	December 15 <i>PARTIALLY DEFERRED</i>
Assessment Review & Schedule Readjustment Date		Oct. 24	Complete
Assessment Review & Schedule Readjustment Date		Nov. 8	Complete
8.	Apply amendments (composted manure) & seed	Nov. 30	December 20 <i>complete</i>
9.	Decommission Barren and Overflow Ponds (if not necessary for post-closure fluid management system)	Sept. 1	December 31
Assessment Review & Schedule Readjustment Date		Nov. 21	9:30 AM
10.	Construct Post-Closure Fluid Management System	November 1	December 31
On-site Review		December 5	(postpone??)
11.	All reclamation/closure work to be completed except for facilities/features required for post closure monitoring (or post closure fluid management system).		December 31

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Pages to Follow: **2**

Date: December 26, 2000

Send To: North Lily Mining

Attention: Steve/Gene/Dave

Re: Elberta, UT

Comments:

Attached is the new loan commitment at \$500,000. I am expecting documents to go out tomorrow, I will fax drafts ASAP.

Dave, please sign the loan commitment and fax it back to me as soon as you can thanks

Steve & Gene, please sign the loan commitment and fax it back to me as soon as you can thanks

I will talk to you in the morning.

Please feel free to call me with any questions.

Regards,

*Jason Ames*  
Lending Specialist

CC: Rob Fender

**OLD STANDARD LIFE INSURANCE COMPANY****LOAN COMMITMENT**

**Date:** December 26<sup>th</sup>, 2000

**To:** North Lily Mining Company

**Collateral:** Approximately 2,330 acres

**Project Locations:** Elberta, Utah

This is our commitment to provide the financing as outlined in detail in your Loan Application to OLD STANDARD LIFE INSURANCE COMPANY, dated October 12<sup>th</sup>, 2000, subject to the following:

**Loan Funding And Commitment Acceptance:**

The Loan Commitment is to provide for acceptance before December 29<sup>th</sup>, 2000  
And funding on or before January 15<sup>th</sup>, 2001.

Loan amount shall be \$500,000. All other terms and conditions remain the same.

The Loan shall be evidenced by a Promissory Note, a deed of Trust, an Assignment of Leases and other security and credit instruments and loan documents required by OLD STANDARD LIFE INSURANCE COMPANY. Guaranty of repayment of the Note shall be evidenced by guaranties in form and substance to OLD STANDARD LIFE INSURANCE COMPANY.

Prior to closing the loan, all taxes and assessments affecting the Property shall have been paid and discharged whether or not payable in installments or constituting a lien against the property.

The Loan will be made in reliance upon statements and representations contained in your Loan Application and in financial statements and other documentation submitted to OLD STANDARD LIFE INSURANCE COMPANY by you and any guarantors. You represent and warrant to OLD STANDARD LIFE INSURANCE COMPANY that all such statements and representations are true in all material respects. At the closing of the Loan your credit and all other aspects of the transaction shall be as represented to us without material adverse change from the time of application for the Loan.

This commitment may not be terminated or changed except by written agreement by both parties. OLD STANDARD LIFE INSURANCE COMPANY shall be under no obligation to close the loan if at the time of closing, facts exist or an event has occurred which would then (or upon the passage of time or lapse of grace period) constitute a default under the Loan Application, this Commitment or any of the Loan documents.

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Initials 



At the date of closing, no part of the Property shall have been taken in condemnation or other proceedings nor shall any such proceedings be pending. In addition, no part of the improvements shall have been destroyed or damaged in any manner. Neither the Loan Application, this Commitment or Loan proceeds may be assigned without the written consent of OLD STANDARD LIFE INSURANCE COMPANY.

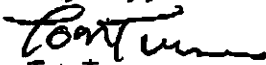
You and OLD STANDARD LIFE INSURANCE COMPANY agree that time is of the essence and that all obligations hereunder shall be timely performed on the dates on which complete performance is specified according to the provisions of the loan Application and this Commitment.

At this point the conditions of the Loan Application regarding loan documentation and closing have not been fully satisfied. This Commitment presumes satisfactory fulfillment of these conditions.

This Commitment must be accepted no later than December 29<sup>th</sup>, 2000. An original executed counterpart (initialed by you on each page and signed in the space provided below) must be received by OLD STANDARD LIFE INSURANCE COMPANY on or before said date, or this Commitment, shall terminate and be of no further force or effect. This Commitment will be canceled January 31st, 2001, if the Loan is not closed. Upon our receipt of this Commitment, it shall constitute an agreement obligating OLD STANDARD LIFE INSURANCE COMPANY to make the Loan in accordance with the terms and conditions contained or referenced herein.

In the event of any conflicting provision between the Applicant, this Commitment and any Loan documents executed subsequent to the issuance of this Commitment, the provisions of such subsequent Loan documents shall control. This Commitment may not be changed except by written agreement by both parties.

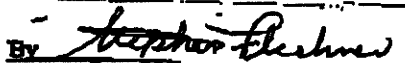
Very Truly yours,

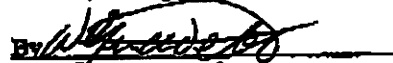
  
Tom Turner  
Secretary/Treasurer

COMMITMENT ACCEPTED AND APPROVED:

This 27<sup>th</sup> day of Dec 2000.

Borrower: North Lily Mining Company

By   
President

By   
Exec. Vice President

Guarantor:

By   
David C. Lott

Page 2 of 2



environmental consultants, inc.

8160 South Highland Drive • Sandy, Utah 84093 • (801) 943-4144 • Fax (801) 942-1852

December 22, 2000

Mr. Don Ostler  
Director  
Utah Division of Water Quality  
288 North 1460 West  
P.O. Box 144870  
Salt Lake City, Utah 84114-4870

RE: North Lily Mining Company, Silver City, Utah Facility - Final Plan for Post-Closure  
Fluid Management System (PCFMS) - Response to December 15, 2000 Letter

Dear Mr. Ostler:

Thank you for the conditional approval of the subject PCFMS Plan as expressed in your letter of December 15, 2000. North Lily understands and accepts the conditions set forth in the letter.

During the last project update conference call on December 17, 2000, I had proposed an alternate design for the leachfield given topographic restraints to the proposed ultimate gravity flow system that would be the "permanent" means of residual leach draindown fluids reaching the leachfield. As a result, an alternate design proposal was requested and I had agreed to provide that design change request by today. Subsequent to that conference call, I received a follow-up call from Wayne Hedburg of the Division of Oil Gas and Mining (DOGM) on behalf of the State conferees. Wayne requested that JBR evaluate the possibility of installing a leachfield with lesser capacity than the original 10 gpm-capacity leachfield proposed in the PCFMS Plan in a location in the vicinity of percolation test site TP-B that could be converted to gravity flow as originally proposed. I agreed that we would do so and, subsequently, we identified four test pit locations for supplemental percolation tests. These sites are located adjacent to site TP-B on the northeast, east and south in areas that would allow draindown fluids to reach a leachfield constructed in that general vicinity by gravity flow. The test pits were excavated yesterday and the percolation tests are being conducted today. Evaluation of the results of the tests will be completed by December 27.

Since JBR's proposal to modify the PCFMS to a non-gravity flow has system been tabled, a revised plan is not appropriate, at least as yet. On behalf of North Lily, JBR proposes instead to respond by submitting a topographic survey and the above-referenced percolation test data to the Division of Water Quality (DWQ) and DOGM on or about December 28, 2000. At the same time, if the data indicated that an area of sufficient permeability to dispose of 5 gpm of fluid flow

Corporate Office • Sandy, Utah  
(801) 943-4144  
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Cedar City, Utah  
(435) 662-8793  
Fax (435) 662-7106

Springville, Utah  
(801) 489-7120  
Fax (801) 489-7129

Reno, Nevada  
(775) 747-5777  
Fax (775) 747-2177

Elko, Nevada  
(775) 738-8766  
Fax (775) 738-2264

Mr. Don Ostler  
December 22, 2000


Page 2

exists in the vicinity of TP-B, we will begin preparing the final sizing and location of a 5-gpm system and, along with as-built drawings of the proposed septic tank(s), submit them for review and approval by the divisions, along with a proposed construction schedule.

Given the limited area in the vicinity of TP-B and its close proximity to TP-E, which has unacceptably low permeability, there is potential that a leachfield of sufficient size may not be able to be built in the area evaluated by the percolation tests. If this is the case, and while the divisions are reviewing the additional percolation test and topographic data, JBR will design and implement a supplemental percolation program to accomplish one of the following two options, dependent upon the current test results, which are presented in order of preference: evaluation of untested adjacent areas to the north of TP-B where minimal earth moving could allow for creation of a land surface area downgradient from the leach pad; or further evaluation of the areas surrounding sites TP-C and TP-D so that we can size and locate a pump-fed system in this area of higher permeability soils.

If the above-described approach is not satisfactory to DWQ for any reason, please let me know at your earliest convenience. If you wish to respond by email, my email address is rbayer@jbr-env.com. Thank you for your prompt attention to this matter.

Sincerely,



Robert J. Bayer  
Managing Principal

cc: Dennis Frederick, DWQ  
Fred Pehrson, DWQ  
Beth Wondimu, DWQ  
Mary Ann Wright, Division of Oil Gas and Mining  
Wayne Hedburg, Division of Oil Gas and Mining  
Stephen Flechner, North Lily Mining Company  
Mike Keller, VanCott Bagley

**NORTH LILY MINING COMPANY**

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**FAX transmittal**

DATE: 28 DEC 2000

TO: MARY ANN Wright 801 359 3946

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to Wayne Hedberg 801 359 3940

Beth Wondimu 801 538 6016

Please make sure everyone  
has their copy.

Thanks -

Happy New Year -

Best -

*[Signature]*